



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

## Red, blue and green

In January, a chart published by the Council of State Governments (CSG) was covered in the *Oklahoma Economic Report* (OER). It caught our attention since it listed Oklahoma as the top state in the nation for percentage of state expenditures from federal funds. After confirming Oklahoma was erroneously ranked, CSG provided accurate data from the National Association of State Budget Officers (NASBO), from which a corrected graph was created depicting federal spending in the states, as reported by state budget officers.

The corrected graph demonstrated

an interesting juxtaposition in the percentage of federal funds received by states and their political party control. In general, states with Republican-controlled legislatures appeared more dependent on federal funds than those under Democratic control. Looking for explanation of this juxtaposition, the OER reviewed various reports on federal spending administered by the states and found a lack of data consistency.

NASBO's annual State Expenditure Report is based on amounts reported by each state's budget offices. However, the report shows spending totals for

Oklahoma that are \$4 billion higher than what was reported in Oklahoma's Comprehensive Annual Financial Report (CAFR).

The U.S. Census Bureau publishes yet another report on state government expenditures, but its data matches neither the NASBO nor CAFR numbers. This month, the OER completed its analysis using the Census Bureau's 2012 Annual Survey of State Government Finances, just released in late January. Census data has long been considered the gold standard for empirical analysis.

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#### Contributor

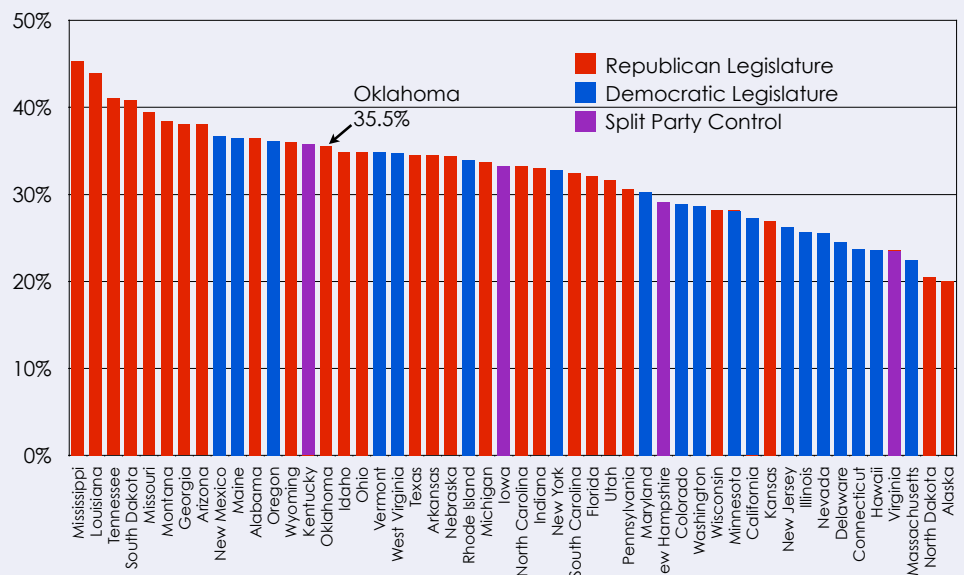
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### Federal Spending by State Governments

Percentage of state spending



Sources: U.S. Census Bureau 2012 Annual Survey of State Government Finance/Party affiliation from NCSL



## Governor's Commentary

By Governor Mary Fallin

### The time to fix the Capitol is now

The Oklahoma Capitol was built in 1917. Since then it has been the People's House - a place where state business is conducted and laws are written and passed. It is also a living museum where school children and other visitors come to learn about the history of their state and the workings of their government. For many who pass through Oklahoma, it is the lasting impression they have of our home.

I am proud of this building. I am proud of the work that has gone into acquiring and preserving the priceless portraits, paintings and murals that showcase our history. When the dome was completed in 2002, I thought the people of Oklahoma finally had the kind of beautiful, functional Capitol building they deserved.

Unfortunately, the Capitol has been allowed to slowly decompose. Scheduled maintenance and repairs have been put off and unfunded for years.

The results have been predictable: the building that should be a source of pride for our state and its citizens has become an embarrassment and a safety hazard.

The exterior is falling apart, to the point where we must actually worry

about employees and visitors being hit by falling pieces of the façade.

The yellow barriers outside are an eyesore and an embarrassment. The electrical system is dangerously outdated.

Raw sewage is literally leaking into our basement. As I told the Legislature in my State of the State address this year, on "good" days you can see the disrepair. On bad days, you can smell it.

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**“Diverting \$160 million to Capitol repairs means taking money away from very real needs. That’s not fiscally conservative; it’s just irresponsible.”**

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It is absolutely essential that this kind of deterioration stops, and we begin the process of restoring and repairing this beautiful building.

That means, first and foremost, finding a funding source.



Oklahoma's Capitol architect believes repairs will cost \$160 million. As a state, we have two ways of coming up with that money: we can pass a bond, and pay back the cost of the repairs over time; or we can appropriate cash from our existing revenue.

Some of our legislators have expressed an interest in paying in cash. They are worried about debt and the added cost of interest. They are fiscal conservatives, like I am, and I understand their motivations. In fact, because Oklahoma is such a conservative state, we have one of the lowest debt rates in the nation.

Having low debt is good, but the fact remains that paying in cash for a large, one-time expense like Capitol repairs can be unrealistic and undesirable. Think of a family buying a \$160,000 house. For almost every family, paying in cash is impossible. A responsible loan is the most realistic way to cover that cost. Even

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## Governor

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for a wealthier family, paying in cash might be possible but undesirable. Sure, a well-off family might be able to free up \$160,000 in cash, but they might also have to take their children out of college to do so.

That's the position the state of Oklahoma is in today. We have a \$160 million expense on our hands. Diverting \$160 million to Capitol repairs means taking money away from education, public safety, and other very real needs. That's not fiscally conservative; it's just irresponsible.

The good news is that, like a mortgage, a bond is a common-sense, affordable alternative. Debt payment would amount to about \$10.3 million a year. Furthermore, most of the state's modest debt is soon coming off the books. In 2018, 41 percent of Oklahoma's debt will be retired, and more than 86 percent will be eliminated in the next 13 years.

That means a bond for Capitol repairs can be added without significantly adding to state debt in the long term.

Pursuing a bond may also help our credit rating. Last year, state Treasurer Ken Miller and I went to

New York City to visit with credit rating agencies like Moody's. One of the first things they told us was that our state would have trouble getting a better credit rating until we invested more in our infrastructure, including the state capitol.

All of this means that a bond issue is the best, most realistic way of funding Capitol repairs. I am asking our legislators, as well as all the people in Oklahoma, to lend their voices to the chorus of support for responsible repairs and restoration to one of the great jewels of our state: the People's House at 23<sup>rd</sup> and Lincoln.

## Spending

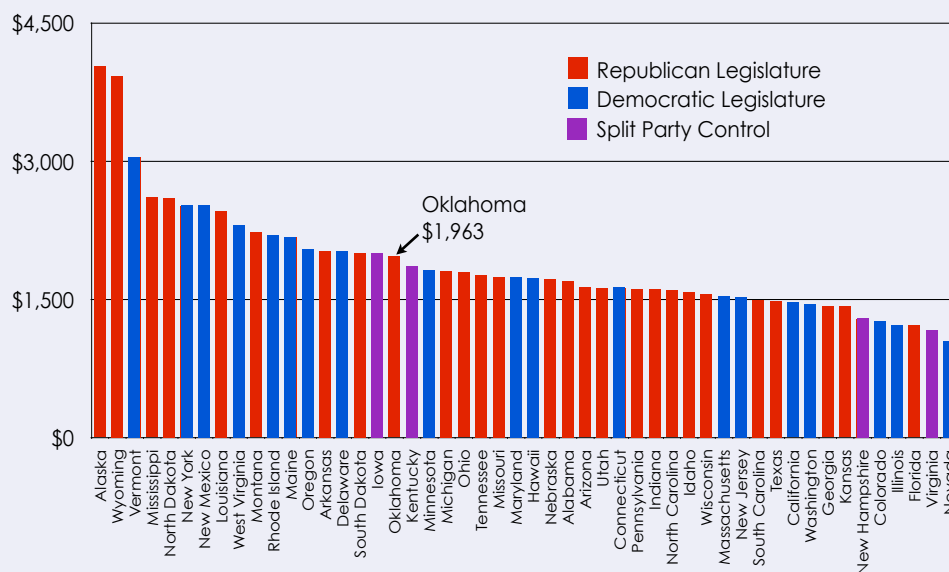
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The Census Bureau report, which compiles information about the sources of state government revenue, shows that on average 31.6 percent of state revenues are in the form of federal funds. However, the figures only include federal funds administered by the states. Excluded is all other federal domestic spending, including salaries and wages, procurement contracts, and retirement and disability payments.

The largest category of federal grants received by the states is for public welfare and includes funds for the Temporary Assistance to Needy Families program and Medicaid. Nearly \$300 billion in grants were disbursed to states for these assistance programs.

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### Federal Spending by State Governments Per capita



Sources: U.S. Census Bureau/Party affiliation from NCSL

Opinions and positions cited in the *Oklahoma Economic Report™* are not necessarily those of Oklahoma State Treasurer Ken Miller or his staff, with the exception of the *Treasurer's Commentary*, which of course, is the viewpoint of the treasurer.



## Spending

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The next largest grant disbursement was for education, with more than \$90 billion in funds being sent to the states.

The federal government issued highway grants totaling \$43.2 billion, and disbursed \$26.2 billion in grants to state governments for health and hospital related functional activities.

Even though NASBO and the Census Bureau show different figures, both demonstrate a distinct dominance of “red” states among top recipients of federal funds and of “blue” states among the bottom recipients. Interestingly, however, the Census data show the lowest recipient state is one with a Republican-led legislature.

In Mississippi, the highest recipient for FY-12, federal funds accounted for more than 45 cents of every dollar expended by the state. In Alaska, the lowest recipient for FY-12, 20 cents of every dollar spent was derived from federal grants. Oklahoma, with 35.5 percent of all expenditures coming from federal funds, ranked 15<sup>th</sup> among all states for federal funds as a percentage of state expenditures. This is markedly different from the NASBO data, which showed Oklahoma with a rank of 7<sup>th</sup> highest in federal spending, which goes to show that using different data sets can produce vastly different outcomes.

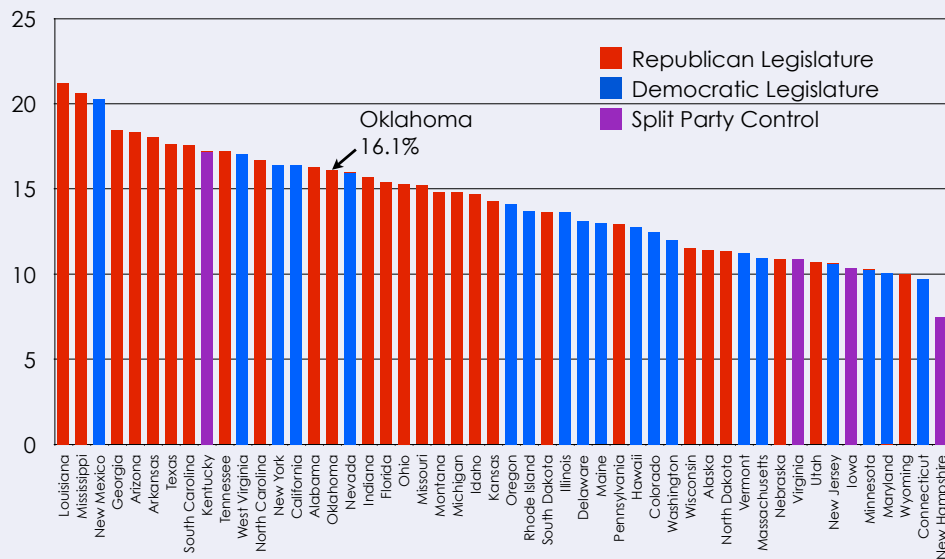
Of the top ten states with the highest percentage of federal funds relative to state spending, just two were states with Democrat-controlled legislatures. Among those states using the lowest percentage of federal funds, two were Republican-controlled and one had split party control.

While significant, the amount of funds distributed in the form of federal grants is eclipsed by the amount of funds the federal government disburses directly to individuals.

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### Poverty Rate

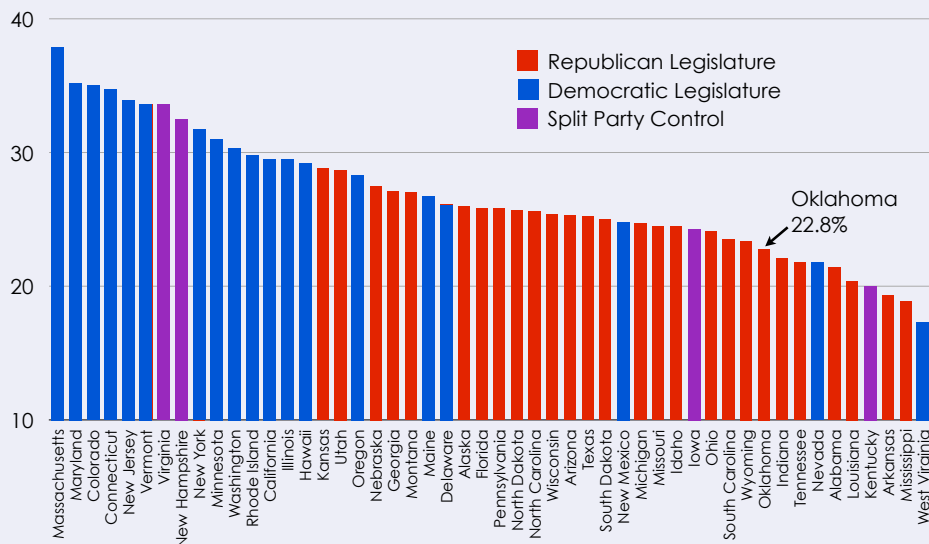
Percentage of Population Living in Poverty



Sources: U.S. Census Bureau Current Population Survey, 2010 to 2013 Annual Social and Economic Supplements - three-year average poverty rate/Party affiliation from NCSL

### Educational Attainment

Percentage of adult population with at least Bachelor's Degree



Sources: U.S. Census Bureau/Party affiliation from NCSL



## Spending

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Unfortunately, there is no complete source of data that shows all federal funds distributed to the states. Until 2011, the U.S. Census Bureau released the annual Consolidated Federal Funds Report (CFFR), a comprehensive publication containing information on federal spending, summarizing all expenditures – including federal grants, awards, contracts, salaries and direct payments to individuals by program, agency, state, county and congressional district.

The CFFR was eliminated in the FY-12 federal budget. The last complete report published is for FY-10. That report showed that direct payments to individuals for retirement and disability payments, Medicare and other benefits totaled more than \$1.7 trillion, compared to federal grants totaling \$675 billion. In 2010, Oklahoma received \$21.6 billion in federal funds in the form of direct payments to individuals.

The federal website USAspending.gov provides some, but not all data previously provided by the CFFR. The site has received criticism from the Sunlight Foundation, a nonprofit, nonpartisan organization whose mission is to make government transparent and accountable, for having inconsistent and incomplete spending data. The federal Office of Management and Budget acknowledged the website's shortcomings in June 2013 when it issued a memo to all chief financial officers at federal agencies requesting better reporting of data to improve the reliability and quality of the report.

Using the 2014 USAspending.gov data, Oklahoma ranked 23<sup>rd</sup> among states

in direct payments from the federal government, with a total of \$4.5 billion, but those funds are described as only including funds paid to individuals for services such as Social Security, Unemployment Insurance, Housing Choice Vouchers and Federal Pell Grants.

Another data set previously provided by the CFFR is federal salaries and wages, including those employed by the Department of Defense and the U.S. Postal Service, both of which have strong presences in Oklahoma.

The information provided in the 2010 CFFR depicts a much more balanced distribution of federal funds across the country. Of the 27 states that received federal funds *below* the national average, Oklahoma being one of them, there were more red states than blue. Fifteen states had Republican-led legislatures, 10 had Democrat-controlled

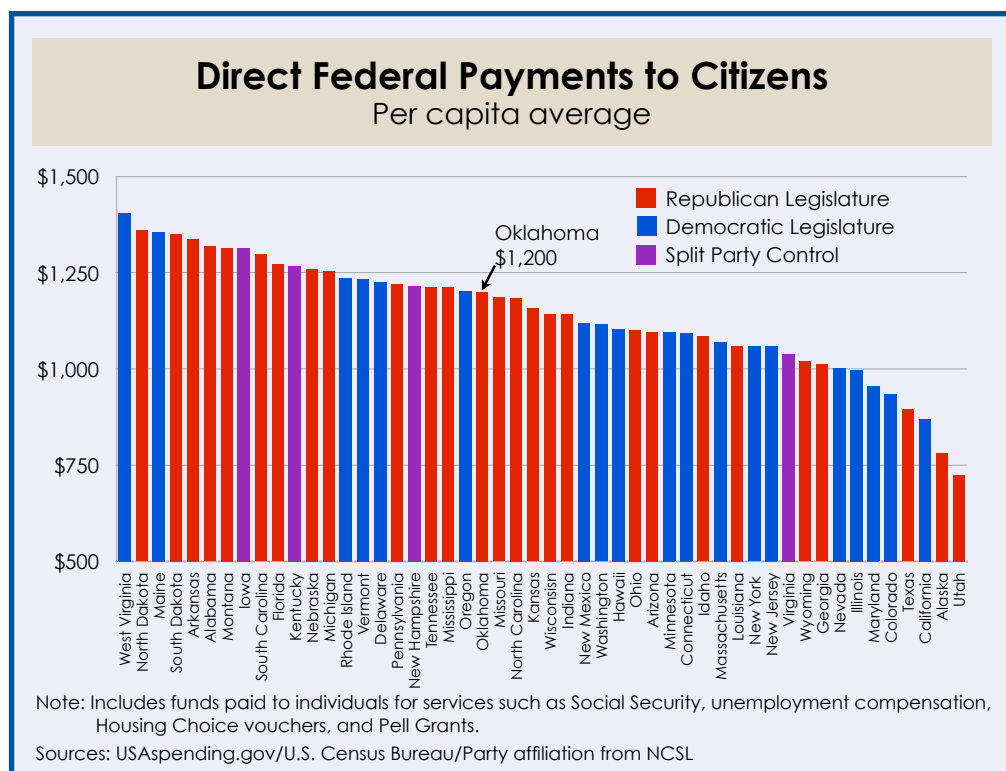
legislatures, and two had split party control.

Those states receiving federal funds above the national average included 11 red states, 10 blue, and two with split party control.

The fact that states' dependence on federal funds changes so much when all federal funds are evaluated, including those that are received directly by individuals and local governments, indicates that funding may have less to do with a state's discretionary policymaking and more to do with socioeconomic factors. A state that receives less federal grants than others may receive above-average federal funds depending on what is received by local governments and individuals.

Factors contributing to the variations in federal funds across the states include population, poverty rates, educational

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## Gross receipts & General Revenue compared

The Treasurer's February 5 gross receipts to the treasury report and the Office of Management and Enterprise Services' February 11 General Revenue Fund (GRF) report contain several differences.

January gross receipts totaled \$1.07 billion, while the GRF received \$610.5 million or 57.1% of the total.

The GRF received between 32.2% and 57.1% of gross receipts during the past 12 months.

From January gross receipts, the GRF received:

- Personal income tax: 72.2%
- Corporate income tax: 70.1%
- Sales tax: 44.8%
- Gross production-Gas: 1.7%
- Gross production-Oil: 64.9%
- Motor vehicle tax: 31.8%
- Other sources: 64.9%

January GRF allocations topped the estimate by \$37.2 million or 6.5%. Fiscal year-to-date allocations remain below the estimate by \$150.3 million or 4.5%.

For January, insurance premium taxes totaled \$93,000.

Tribal gaming fees generated \$10.1 million during the month.

## January a healthy month for state economy

Oklahoma's economy, as reflected in monthly gross receipts to the treasury, set new highs in January, said State Treasurer Ken Miller.

Miller said three components of gross receipts entered new territory during the first month of 2014: Record highs were set for sales tax collections and personal income tax withholding payments; and for gross receipts in a January, a new high was set.

"Oklahomans earned and spent at record levels during the past month," he said.

"Also, total receipts last month brought in more than in any other January, indicating healthy performance of the state economy."

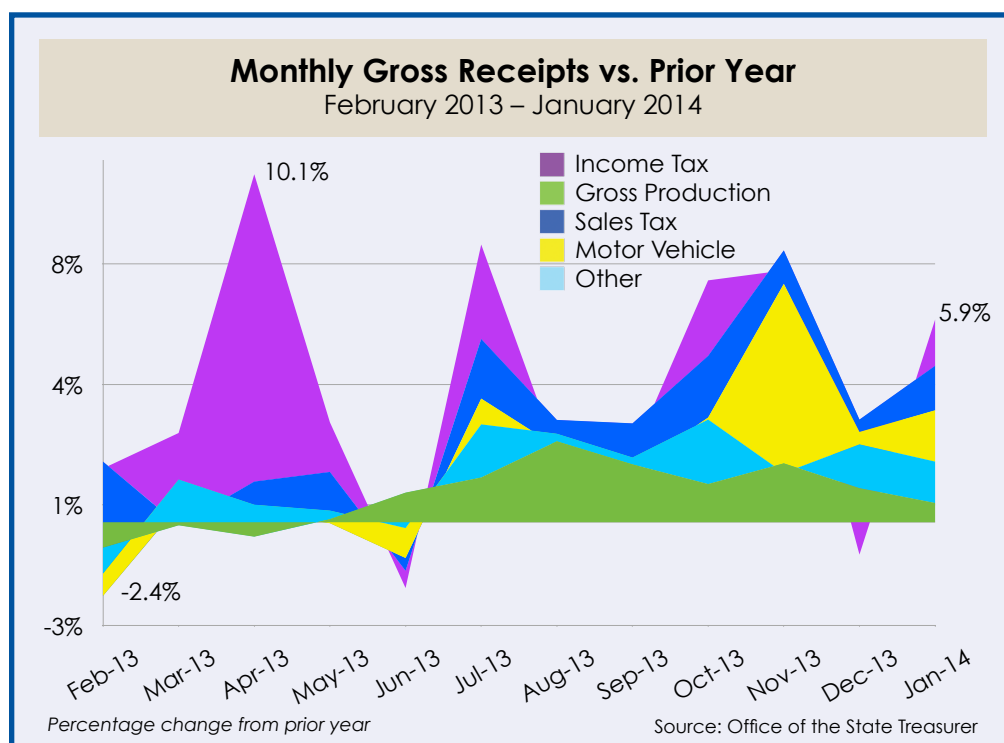
**“Oklahomans earned and spent at record levels during the past month.”**

January sales tax collections, from purchases made between mid-December and mid-January, generated \$378.33 million – up by \$13.04 million or 3.6 percent from

last January. The previous high was set last July with \$369.22 million.

Personal income tax withholding payments of \$280.29 million topped the

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## Revenue

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previous record set a year ago in January by \$12.28 million or 4.6 percent.

Withholding payments are remitted by employers from funds withheld from workers' paychecks and are a key component of total personal income tax payments.

Total gross collections in January were \$1.07 billion, topping the previous January high set last year by \$59.32 million or 5.9 percent.

"The Oklahoma economy continues its expansion at the beginning of the year," Miller said. "Relatively steady growth in gross collections has become the norm over the past few years, such that it has

become somewhat expected. But as we have seen, that doesn't necessarily translate to the General Revenue Fund."

Miller noted that the record collections are an indicator of the strength of Oklahoma's economic output and are not the result of revenue raising measures. In fact, taxes have been cut over the past several years.

## Spending

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attainment, and the composition of the workforce, especially military and federal workers.

Examining the purposes of the funds provided by the federal government is just as important as examining the amount of funds. Oklahoma may receive total federal funds below the national

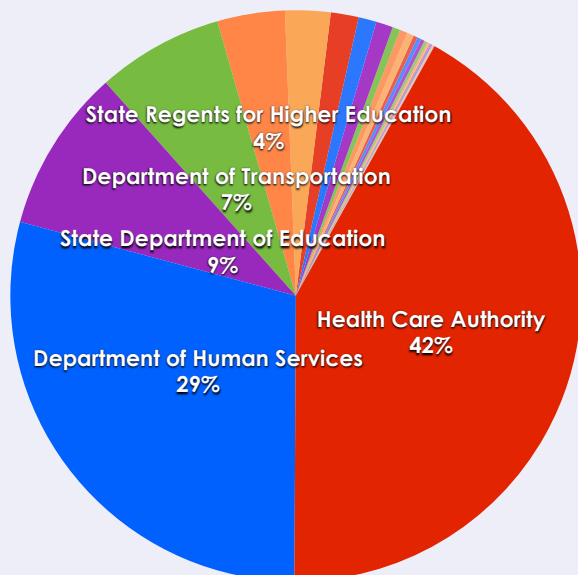
average, according to the CFFR, but as the Census data show, it is above average in its use of grants, the bulk of which go toward social assistance. 2012 Census data also shows Oklahoma, with 17.2 percent of its population falling below the federal poverty line, as having a poverty rate higher than the 15.9 percent national average.

The amount of federal funds used by states only tells part of the story, but it

does provide insight as to what functions of state government are most dependent on federal assistance – a useful tool for policymakers as they seek to become less dependent on shrinking federal funds.

This also underscores the importance of not committing a fallacy of composition, in which a conclusion is drawn about the whole based on an observation of a subset.

**Federal Funds Received by  
Oklahoma State Government –  
FY-13**



Sources: OMES, SDE, OSRHE

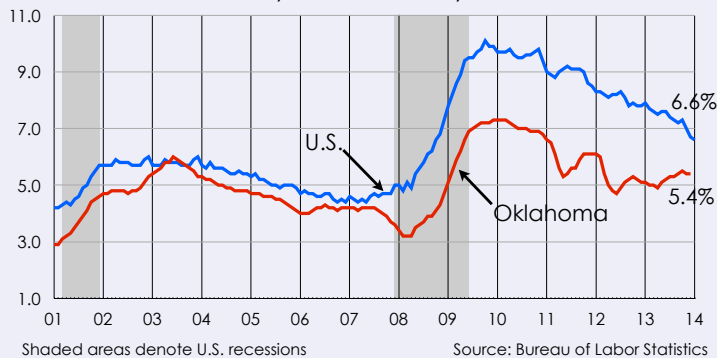
Agency	Match Required	Federal Funds
Health Care Authority	10 to 50%	\$ 2,973,824,275
Department of Human Services	6.78 to 100%	\$ 2,058,771,308
State Department of Education	None	\$ 653,999,509
Department of Transportation	Varies, 20 to 100%	\$ 506,729,342
State Regents for Higher Education	Varies	\$ 270,910,481
State Department of Health	Varies, \$11,775 to \$2,825,000	\$ 181,752,277
Department of Veterans Affairs	Varies, 35%	\$ 111,567,699
Department of Commerce	Varies, 20 to 100%	\$ 72,092,703
Department of Rehabilitative Services	Varies, 10 to 21.8%	\$ 67,794,444
Department of Public Safety	None	\$ 31,508,555
Oklahoma Water Resources Board	Varies, 5 to 40%	\$ 29,750,507
Oklahoma Department of Emergency Management	10 to 50%	\$ 28,088,423
Department of Environmental Quality	Varies, 40%	\$ 16,034,559
JD McCarty Center	36%	\$ 15,936,279
Department of Wildlife Conservation	25%	\$ 15,010,042
CareerTech	varies, 80:20	\$ 12,400,936
Office of Juvenile Affairs	Varies, 10 to 50%	\$ 6,430,156
Department of Corrections	Varies, 25 to 50%	\$ 3,867,293
Oklahoma State Bureau of Investigation	Varies, 10%	\$ 3,776,316
Oklahoma Corporation Commission	Varies, 10 to 80%	\$ 3,767,125
Department of Libraries	Varies, 34%	\$ 3,644,120
Office of the Attorney General	None	\$ 2,918,744
Department of Tourism and Recreation	None	\$ 2,157,692
Department of Labor	10 to 50%	\$ 1,407,037
Department of Mines	20 to 50%	\$ 1,196,176
Oklahoma Commission on Children and Youth	None	\$ 1,000,000
Oklahoma Conservation Commission	None	\$ 1,000,000
Arts Council	1:1	\$ 720,800
Commissioners of the Land Office	None	\$ 269,035
Bureau of Narcotics and Dangerous Drugs	None	\$ 249,981
Office of Disability Concerns	None	\$ 133,329
Board of Medicolegal Investigations	None	\$ 29,296
Total		\$ 7,078,738,439



## Economic Indicators

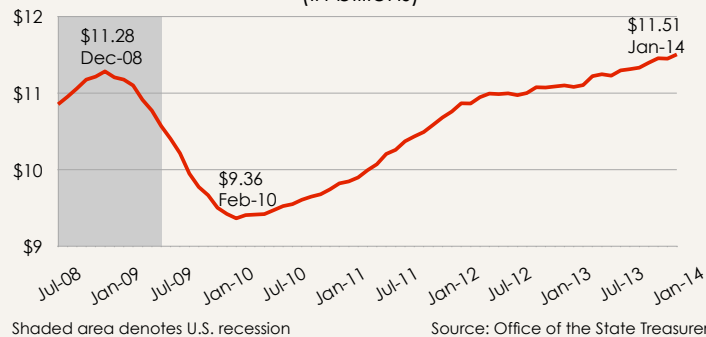
### Unemployment Rate

January 2001 – January 2014

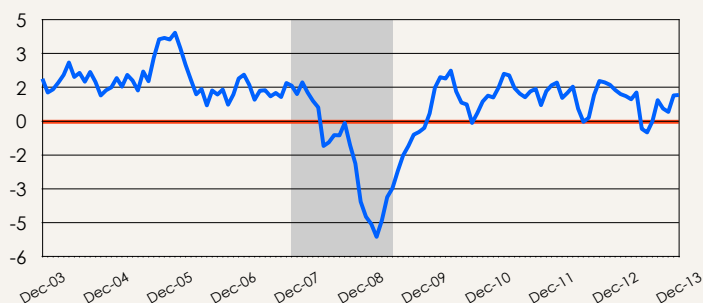


### Oklahoma 12-Month Gross Receipts

July 2008 - January 2014  
(in billions)



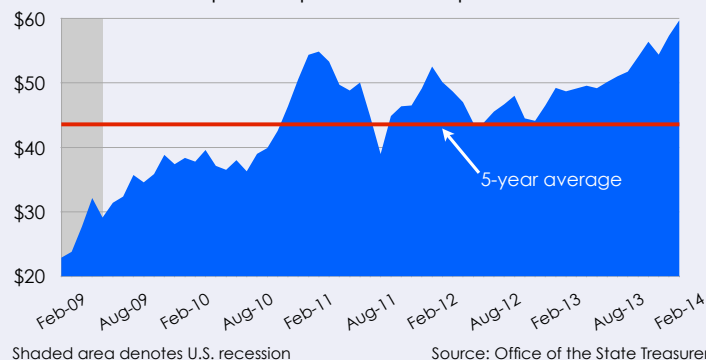
### Leading Index for Oklahoma



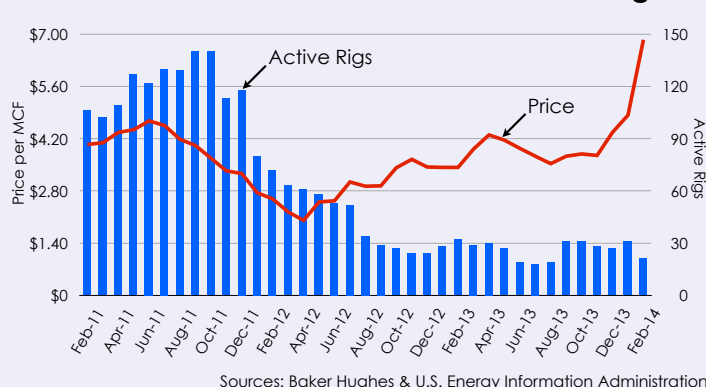
This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings.

### Oklahoma Stock Index

Top 25 capitalized companies



### Oklahoma Natural Gas Prices & Active Rigs



### Oklahoma Oil Prices & Active Rigs

